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CONFIDENTIAL
INFORMATION REPORT

SUBJECT Economic Conditions in the Northeast

DATE DISTR. 25 JUL 50

NO. OF PAGES 2

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1. The Northeast government has established a Production Division in Mukden under the direction of General T'ANG (唐 绍仪), who also serves as the Liaison officer with the Chief of the Commercial Section of the Soviet Consulate General in Mukden. T'ANG's superior is CHUNG Fa-t'ing (鄭 輔廷), production administrator for the Northeast government, formerly director of the Northeast People's Government Transportation Company. The new division is concerned with the manufacture, processing, or production of all materials and products of the Northeast in which the USSR is interested. Specifically, it was created to encourage, coordinate, and increase production, and to supervise each step from preliminary processing through manufacturing and marketing.
2. Final authority and considerable influence in shaping the policies of the division are vested in the Soviet consular office in Mukden.* An example of Soviet influence occurred in early February 1950, when, according to orders issued by the Soviets, a shipment of talc was sent from the Northeast to Shanghai even though the government had previously ordered that only military supplies would be shipped south. This shipment was also made in spite of the fact that replacement-deliveries to the East China area government have been delayed considerably, longer, for instance, being five months behind schedule.
3. Commodity prices in Manchuria are generally lower than in other parts of China because of the government-operated retail stores. The few remaining privately-owned stores are unable to compete successfully with government enterprises, partly because of high business taxes and forced purchases of government bonds. Although many shop owners want to close down, they are prohibited from doing so, except when the following conditions are met: the shops have secured the approval of the labor unions and have been free of labor disputes; they are actually sustaining losses; and the owners agree to purchase government bonds immediately after they have closed. Even though these conditions are met, the government will permit only a limited number to go out of business each month.
4. The volume of requests from businesses that want to stop operating has been increasing, particularly among the oil stores, rice-hulling mills, handicrafts

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Next Review Date: 2008

Approved For Release 2006/04/14 : CIA-RDP82-00452R005200550011-5 By

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of woolen goods and dyeing factories. In the latter part of 1949, when the government raised the allotment of raw materials available to private firms, many of them hired extra workers. In 1950, when supplies were again reduced, the firms were over-staffed, but were forced to operate at losses rather than close down or reduce the number of employees.

5. On 1 March 1950, the government began a subscription drive for a second issue of construction bonds, amounting to thirty million units.** Government organizations, civic groups and guilds, as well as former Manchurian and Nationalist officials and wealthy residents were subject to the drive. The bond subscription soliciting committees, composed mostly of lower-income elements and aided by information obtained from the local police, filled the quota by the required date, using pressure when necessary to insure signatures for the allotted amounts. When an attempt was made to collect the funds, however, only one-third of the total subscription was received. Several shop-keepers in Mukden were detained by the police when they failed to produce the funds for which they had previously subscribed.
6. Under the terms of the land reform which the Communists instituted in the provinces of the Northeast, each adult received three mou of land, enough to produce about 720 catties of beans each year. In spite of the fact that 720 catties are just sufficient for one person for one year, two hundred catties of the best quality rice must be given for taxes. Although 12,000,000 mou of land were flooded in the provinces of Jehol and Liaohsi, affecting 2,600,000 persons, the government is still expected to export to the USSR 4,000,000 tons of foodstuff, out of a total annual production of 10,000,000 tons.

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* [] Comment: [] the Soviet diplomatic representation in Mukden actually has the status of an embassy. This statement has also been made independently []

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** [] Comment: Each bond unit includes 16.5 catties of kaoliang, 0.2 feet of white cloth, 0.35 catties of soybean oil, and 55 catties of coal.

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